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via electronic mail and USPS delivery

Ms. Janette Lopez  
Chief Deputy Director  
California Managed Risk Medical Insurance Board  
1000 G Street, Suite 450  
Sacramento, CA 95814

**RE: EVALUATION OF WESTERN DENTAL SERVICES, INC. MEDICAL LOSS RATIO SUBMISSION**

Dear Ms. Lopez:

The Department of Managed Health Care (DMHC) hereby provides the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP), with the following report regarding the evaluation of Western Dental Services, Inc. (WDS) HFP loss ratio submission for the period July 1, 2005 through June 30, 2006. This report outlines the project objectives, methodology and results.

- I Objectives: The purpose of the loss ratio evaluation was to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers and reported by WDS.

As part of this evaluation, DMHC performed the following:

- A Determined whether 100% of the children who received services paid by WDS were enrolled in the HFP at the time the services were provided
- B Summarized the total benefit payments within the detailed data provided by WDS and compared the total payments to the amount reported on Schedule 6 submitted by WDS
- C Summarized the total payments made by WDS for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by WDS on Schedule 6

To achieve the objectives outlined above, the DMHC performed data analysis on information provided by the MRMIB and WDS and corresponded with management personnel at WDS. Primary contact at WDS was David Joe, Chief Financial Officer; Len Matuszak, President & Chief Operating Officer Western Dental Benefits Division; and Kelley Duniven, Director of Operations, Benefit Division. The methodology and results for each of the objectives are described below.

II Methodology

- A Determined whether 100% of the children who received services paid by WDS were enrolled in the HFP at the time the services were provided.

- 1 The DMHC obtained electronic files containing Fee-For-Service (FFS) claims and Capitation (Cap) payments made for HFP subscribers. Additionally, the Department

obtained electronic files from the MRMIB of all children eligible for whom payments was made for benefits as a WDS subscriber during the period of July 1, 2005 through June 30, 2006.

- 2 Using the two files, the DMHC compared the Client Index Number (CIN) and Date of Service on WDS's FFS and Cap files to determine if there were any payments made by WDS for subscribers that were not eligible for benefits according to the eligibility file received from the MRMIB.

Table 1 – Fee for Service and Capitation payments for individuals that were not listed as eligible members per the data files provided by Maximus for the service periods under examination.

**Table 1** (Ineligible Expenditures)

Claims/capitation payments Category	Number of claims/services payments	Dollars	Total Dollars in Database for the Category (footnote 1)	% Error in Database
Total FFS	26	\$2,207	\$234,267	0.94%
Preventive Services	17	\$521	\$51,175	1.02%
Restorative Services	7	\$1,484	\$166,510	0.89%
Major Services	2	\$202	\$16,582	1.22%
Total Other Services	5,960	\$29,812	\$1,010,060	2.95%

Notes for Table 1: The FFS payment mismatches identified during the examination were determined to be immaterial by the examiner and were not proposed as adjustments for the audit. The Capitation payment mismatches identified during the examination were determined to be material by the examiner and were proposed as adjustments for the audit.

**B Summarized the total benefit payments within the detailed data provided by WDS and compared the total payments to the amount reported on Schedule 6 submitted by WDS.**

Using electronic files and paper documentation received from WDS in Section II above, and WDS's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files and paper documentation to the data reported on Sch 6.

*Footnote 1: This analysis represents payments made by the Plan to their contracted providers and not payments made by MRMIB to the Plans.*

**Table 2**

Description	Schedule 6	Plan Data	Difference
Preventive Services	\$50,281	\$16,582	(\$33,699)
Restorative Services	\$45,161	\$51,175	\$6,014
Major Services	\$122,690	\$166,510	\$43,820
Total	\$218,132	\$ 234,267	\$16,135

Notes for Table 2: The data base provided by WDS was analyzed based on the period of service and has been determined to be the most accurate measure of medical expense for the period of the examination. The data base included a review of costs identified through 6 months after the exam period to ensure capture of all amounts which would have been identified via accruals/IBNRs. The difference between the amounts reported on the Schedule 6 as dental expenses by the Plan and the amounts identified as paid claims per the Plans data base were material and were proposed as adjustments by the examiner.

Other Services (line 8):

1) Capitation

**Table 3**

Description	Schedule 6	Plan Data	Difference
Capitation	\$991,490	\$1,010,060	\$18,570
Total	\$991,490	\$1,010,060	\$18,570

Notes for Table 3: The data base provided by WDS was analyzed based on the period of service and has been determined to be the most accurate measure of medical expense for the period of the examination. The data base included a review of costs identified through 6 months after the exam period to ensure capture of all retro adjustment amounts. The difference between the amounts reported on the Schedule 6 as dental expenses by the Plan and the amounts identified as paid claims per the Plans data base was material and was proposed as adjustments by the examiner.

- 2) Bonus/Incentive Payments – review and reclassified to capitation. The payments are supplemental capitation payments (please see Appendix I)
- 3) Encounter Payments – reviewed and accepted as reported
- 4) UM/QA – reviewed position descriptions and accepted as reported

**C Summarized the total payments made by WDS for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by WDS on Schedule 6.**

**Table 4**  
Detailed reconciliation of detailed data files to Schedule 6

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER/(UNDER)
	Subscriber Months <sup>Note 1</sup>	204,907	204,954	47
1	Premium Payments from State	\$2,374,394	\$2,377,725	\$3,331
	<b>Affiliated Entities and Nonaffiliated Entities</b>			
2	Incentive Payments to Affiliated Parties	\$0	\$0	\$0
3	Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
4	Total Incentive Payments	\$0	\$0	\$0
	<b>Expenses (Health Family Program Only)</b>			
	<b>Dental Services</b>			
5	Preventive Services <sup>Note 2</sup>	\$45,161	\$51,175	\$6,014
6	Restorative Services <sup>Note 2</sup>	\$122,690	\$166,510	\$43,820
7	Major Services <sup>Note 2</sup>	\$50,281	\$16,582	(\$33,699)
8	Other Services <sup>Note 3</sup>	\$1,633,974	\$1,626,509	(\$7,465)
9	Reinsurance Expenses	\$0	\$0	\$0
10	Incentive Pool Adjustment	\$0	\$0	\$0
11	Total Dental Services (line 5 to line 7)	\$1,852,106	\$1,860,776	\$8,670
	<b>Administration:</b>			
12	Compensation	\$27,098	\$27,098	\$0
13	Interest Expense	\$13	\$13	\$0
14	Occupancy, Depreciation and Amortization	\$17,322	\$17,322	\$0
15	Management Fees		\$0	\$0
16	Marketing	\$94,859	\$94,859	\$0
17	Affiliate Administration services		\$0	\$0
18	Aggregate Write-Ins for Other Administration Expenses	\$39,024	\$39,024	\$0
19	Total Administration (line 12 to line 18)	\$178,316	\$178,316	\$0
20	Total Expenses (line 4, line 11 & line 19)	\$2,030,422	\$2,039,092	\$8,670
21	Income (Loss) (line 1 less line 20)	\$343,972	\$338,633	(\$5,339)
22	Extraordinary Item		\$0	\$0
23	Provision for Taxes	\$26,918	\$26,918	\$0
24	Net Income (Loss) (line 21 plus line 22 & line 23)	\$370,890	\$365,551	(\$5,339)
A	<b>Gross Profit</b>	<b>\$2,003,504</b>	<b>\$2,012,174</b>	<b>\$8,670</b>
B	<b>MEDICAL LOSS RATIO</b>	<b>78.00%</b>	<b>78.26%</b>	

**Note 1:** Premiums were determined per exam based on the period of coverage identified within the Maximus data files provided. Since WDS reports premiums based on "amounts" received and receivable there will be a timing difference between the methodology of WDS and the examination, due to the existence of significant retro activity in the Maximus data. Plan data was accepted as accurate, missing Maximus data explaining the difference.

**Note 2:** The eligibility discrepancies in the Fee For Service class of expenditures are explainable as due to the members who enrolled after the 15<sup>th</sup> of the month that are not captured in the Maximus data.

**Note 3:** The Other Services represented 1) Capitation, 2) Encounters, 3) Incentive, and 4) UM/QA costs.

### III Summary of Findings

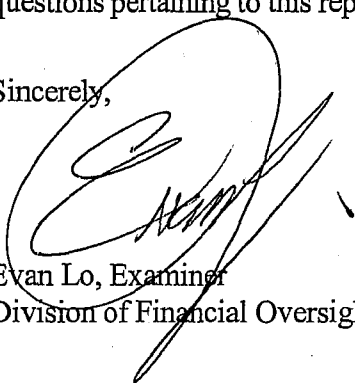
- A Payments made for the benefit of ineligible members (\$26,035)
- B Under reporting of expenditures \$34,705
- C Bonus Payment to Providers (unadjusted) \$512,934

### IV Limitations


This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by WDS on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call Evan Lo, DMHC Examiner or Steven Mihara, DMHC Supervisor with any questions pertaining to this report.

Sincerely,



Evan Lo, Examiner  
Division of Financial Oversight



Steven Mihara, Supervisor  
Division of Financial Oversight

cc: Rudy DelReal, Federal Compliance Unit Manager, MRMIB  
Mark Wright, Chief Examiner, DMHC  
Stephen Babich, Supervising Examiner, DMHC